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C O N F I D E N T I A L SECTION 01 OF 03 TUNIS 000237

SIPDIS

DEPT FOR NEA/FO (FELTMAN/HUDSON), NEA/MAG (NARDI/WILLIAMS),
NEA/EX (HOHE), A/OPR/OS (CAMERON), OFM (BARTON), L/DL
(BENDA)

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SUBJECT: AMERICAN SCHOOL CRISIS ABATES, TIME FOR
NEGOTIATIONS

REF: A. SECSTATE 36413

1B. TUNIS 223

1C. TUNIS 222 AND PREVIOUS

Classified By: Ambassador Robert F. Godec, Reason 1.5 (b) and (d)

SUMMARY

11. (C) Under mounting US and international pressure, the Tunisian authorities have offered public and private assurances of their commitment to keep the American Cooperative School of Tunis (ACST) open and their willingness to negotiate a settlement to the current tax crisis. These gestures included a rare briefing of members of the diplomatic corps by the Foreign and Finance Ministers, personal commitments by the Prime and Foreign Ministers and public statements by the Finance Minister in the Tunisian press. With the school no longer in imminent danger of closing, post requests that a Department delegation be sent to Tunis as soon as possible to negotiate ACST's status and fiscal obligations now and in the future. (See action request paragraph 11.) End summary.

MINISTER OF FINANCE GOES PUBLIC

12. (C) On the morning of April 15, the same day Special Envoy for Middle East Peace George Mitchell met with the Tunisian Prime Minister (septel), the major daily papers reported a press conference given by Finance Minister Kechiche the previous day on economic issues, including fuel prices and taxation. In a topic highlighted by many papers with a teaser headline or highlight box, the Minister responded to a question on a rumored audit and possible closing of the American school. FM Kechiche emphasize that all legal entities in Tunisia are subject to taxation and audits are routine, but dismissed any suggestion that the school would be closed. In fact, he expounded at length on the high value that Tunisians place on education, the role of the school in promoting good relations with many nations, and the importance of foreign residents being able to choose appropriate education for their children. He stated clearly that schools would not be closed because of tax issues. In response to a follow up question asking, "Why now?", he again emphasized the routine nature of the proceedings.

REASSURING THE DIPLOMATIC COMMUNITY

¶3. (C) After repeated inquiries by Ambassadors and other diplomatic community representatives to the GOT, including a demarche on the Tunisian Ambassador in Berlin, Foreign Minister Abdallah and Finance Minister Kechiche (joined by External Communications Director Romdhani) conducted an almost unheard of joint briefing. Speaking to a group that included African Development Bank President Kaberuka and the Ambassadors of the UK, France, Spain, Italy, Germany, Switzerland, Egypt, Kuwait, Belgium, Nigeria, Indonesia, Algeria and the European Commission (but not the US Embassy or ACST) the Tunisian officials said they wanted to set right the "rumors and misunderstandings" concerning the school. They emphasized the routine, non-political nature of tax issue, that a delegation from Washington would be coming to negotiate a solution and asserted that the school would not be closed, period. Foreign Minister Abdallah also emphasized that the case itself would take years in courts, although he did not make clear which side would bring the matter before the courts.

¶4. (C) The UK Ambassador, who provided a readout, said that there was considerable "relief" in the room that the school will not be closed and the generally positive tenor of the meeting. While stinging in his criticism of Tunisian behavior on the issue, including the assertion that the meeting was part of "regular" consultations between the GOT and the diplomatic community, the Swiss Ambassador assessed the Tunisians had made a clear commitment to keep the school open. Other Ambassadors have also been critical of the GOT for its actions on ACST and of the briefing provided by the ministers, but they have welcomed the new commitments regarding the school.

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THE OTHER NEGOTIATIONS...WITH ACST,S BANK

¶5. (SBU) ACST,s Board and Administration received on April 14 a notice from their US creditor PNC BANK that, in light of the material change for the worse in the school,s financial outlook and the fact of being in default on an obligation to a government, the school had been formally declared in default on the balance of its construction loan despite never having missed a payment. The bank had placed a \$2 million hold on the school,s accounts which, while not having an immediate effect on day-to-day operations, could have forced the school to shut down sometime after the end of the school year. Subsequent negotiations between ACST and PNC representatives have resulted in a change in the bank,s tone, and the PNC Account Manager and Vice-President have recommended, subject to internal review, that the hold be reduced to \$1 million and a renewable forbearance agreement be put in place to allow the school to continue operations.

AMBASSADOR BRIEFS HIS COLLEAGUES

¶6. (SBU) After assessing the latest developments and exchanging e-mails with Washington, the Ambassador spoke April 16 with each of the ambassadors involved in the ACST issue. These included the ambassadors of Germany, the UK, the Netherlands, Canada, Italy, Romania, Belgium, Poland, Spain, Switzerland, India, the European Commission and others. He also updated AfDB President Kaberuka through the USED at the bank. The Ambassador:
--noted the new commitments and statements the GOT has made in recent days regarding the school;
--said the US would respond positively by sending a negotiating team that would focus on both the status and tax issues;
--informed them the ACST school board would send a positive letter to parents to keep them informed (see below);
--suggested a period of "quiet" to allow negotiations to

work, but added that difficult issues remain ahead; --thanked them for their help, saying it was key to the progress that has been made, and promising to keep them informed.

¶7. (SBU) All of the ambassadors responded positively, expressing their strong support and ongoing commitment to work with us to reach a solution. Some of the ambassadors expressed the view that the combined international pressure had clearly pushed the Tunisians to change direction. The Ambassador also provided a copy of the ACST letter to MFA chief of staff Khemiri, noting it was intended as a signal that we want to reach to reach an equitable, negotiated solution on all issues regarding the school.

ACST ACTIONS

¶8. (SBU) On the basis of the progress in the Tunisian position, and to reassure the ACST community in advance of the scheduled April 17 Annual General Meeting to elect new Board members and conduct other business, ACST Board President Matthew Long on April 16 sent a letter to all parents and staff detailing new developments. The letter made clear that there would be negotiations regarding the school's status and tax matters that could have significant implications, but expressed optimism for a successful outcome. The letter has been e-mailed to NEA/MAG. ACST has stood down immediate preparations for a possible school shutdown, though prudent contingency planning continues with reduced urgency.

COMMENT

¶9. (C) Under growing US and international pressure, the GOT has, for the first time, agreed to negotiate seriously regarding the future of ACST. They have also clearly acknowledged the importance of the school and promised they will not close it over tax matters. In light of the substantial improvement in the tone and substance of the

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Tunisian position, including public and private assurances that seem to put the school out of immediate danger, we recommend proceeding directly to negotiations on the school's status and fiscal obligations without insisting that the tax decree be formally rescinded in advance.

¶10. (C) Despite recent positive developments, there is still tough work ahead. The talks are likely, in our view, to be difficult and protracted. We will need to do considerable preparatory work, and we must insist that the status issue be the first one negotiated, so that any tax requirements resulting from the status agreement are clear for the future. End comment.

ACTION REQUEST

¶11. (C) In light of the new developments, we ask the Department to send a delegation to Tunis to begin negotiations as soon as possible, but in any case before May 123. If, after decades of reticence, the Tunisians are now ready to negotiate a clear and definitive status for ACST, there is no time to waste. End action request.

Godec